YEAR AHEAD YEAR BEHIND

January 2020

OUR 2020 PERSPECTIVE:

Reviewing 2019 and Analyzing the Year Ahead

What a difference a year makes! While 2018 was the first year since the financial crisis to see equity markets decline (and really did not see a single asset class perform positively), 2019 ended up being one of the strongest years for stocks in the modern era (the best since 2013 and the fourth best in the last 25 years). We closed 2018 with fear around trade, uncertainty around monetary policy, and high skepticism that economic growth could prove persistent. We close 2019 with a feeling of optimism around global trade and a renewed belief that domestic economic strength is sustainable. What a difference a year makes, indeed!

This piece has become an annual tradition at The Bahnsen Group, both to provide you a truly thoughtful analysis of the year behind us, but also to hold us accountable to what we were forecasting a year ago. Our views on the year ahead are informed by history, macroeconomic study, and most importantly, prudent beliefs about capital markets and investor behavioral wisdom that we want to document for you in this writing.

2019 was a case study in what history can teach us about the present and how investor behavioral habits can be ruinous to investor outcomes. The pessimism of late 2018 should have been an argument for "risk-on" – not the opposite. The rear view mirror impacts sentiment more than it does fundamentals – it perpetually has been so – and the only thing unique about 2019 was how immediate and sudden it was that investors were whipsawed from "risk-off" to "risk on." We will walk through the "year that was," seeking to highlight the key events that created the most impactful investor outcomes.

2020 starts with a burden for investors now becoming a broken record – how to respond to low interest rates, and how to feel about high market levels that many are fearful will reverse. Our burden is to acknowledge investor psychology while trying to apply a fact-based wisdom to how we respond. Entire paradigms around trade, credit markets, and even politics are different as we enter 2020 than when we entered 2019. And we probably should not forget (how could we?), 2020 is an election year, too.

So let's be grateful for what 2019 represented in investment markets, and enter 2020 with prudence, poise, and promise.

It is to that end that we work.

2019 IN REVIEW

Performance Summary across Markets

The U.S. equity market as measured by the Dow Jones Industrial Average was up 22.3% in 2019. This isn't quite the +54% of 1933 (in the middle of the Great Depression), or the +53% of 1954 (that 1951-1966 bull market was one for the ages), but it was an extraordinary year for blue-chips made even better when the universe of stocks is expanded. The S&P 500 was up 28.9% in 2019, just a tad below its +29.6% of 2013 and above its huge returns of 2003 and 2009 (+26% and +23%, respectively). The robust equity market performance of 2019 came after a ~6% decline in stocks in 2018. To help contextualize 2019 performance, stocks are presently just 10% higher than they were from the high-level of 2018.

The market suffered only two negative months in all of 2019, an abnormal feat that should not be viewed as a new normal. In fact, the worst drawdown of the year (from peak level to trough) was just 7% - not quite the 2.9% max drawdown of 2017, but certainly well below the 14% average drawdown of the last forty years!

Every sector in the U.S. stock market ended the year positively, with Technology growing 49% (led by semiconductors and hardware, of all things) and Telecom & Media advancing +31%. Financials (+29%) were a standout surprise as so many [wrongly] predicted that declining interest rates would hurt their performance. Indeed, many of the mega-bank stocks advanced over 40% on the year. The worst performing sector (Energy) still managed a +8% gain, and Health Care (last year's leader) was the "second worst" at +19%.

Small-capitalization stocks as measured by the Russell 2000 index were up 23.7%, slightly above the Dow but below the S&P 500 (unique in that a tremendous risk-on rally like we saw in 2019 often comes with higher risk market groups like small-cap outperforming).

Around the world, the Nikkei in Japan delivered a +18% return and the MSCI European Union index delivered a +19.6% return. Both market indices were up nicely but well below American markets. The United Kingdom saw its stock market advance +12% despite year-long uncertainty around the outcome of Brexit. The MSCI Emerging Markets index advanced +15.6%, something we address more extensively elsewhere in this paper.

Gold advanced ~18% on the year, with nearly all of that return coming between May and August. Commodities (as measured by the CRB index) advanced +9.4%.

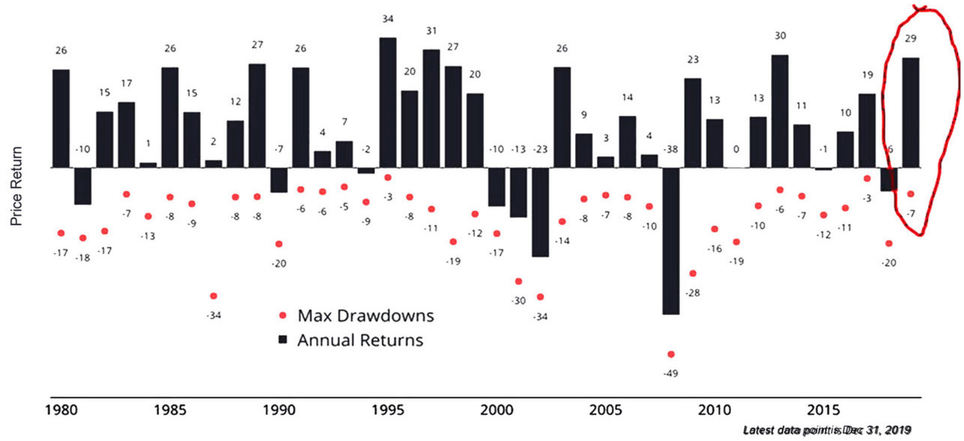
Stock Market Performance in 2019

Annual Return for the S&P 500, Down Jones, and NASDAQ

SOURCE: FactSet, Data as of 12/31/19 close

Annual Returns and Pullbacks

S&P 500 Index, Max Drawdown Represent the Biggest Intra-year Decline



SOURCE: *Market and Economic Chartbook, January 1, 2020. Clearnomics.*

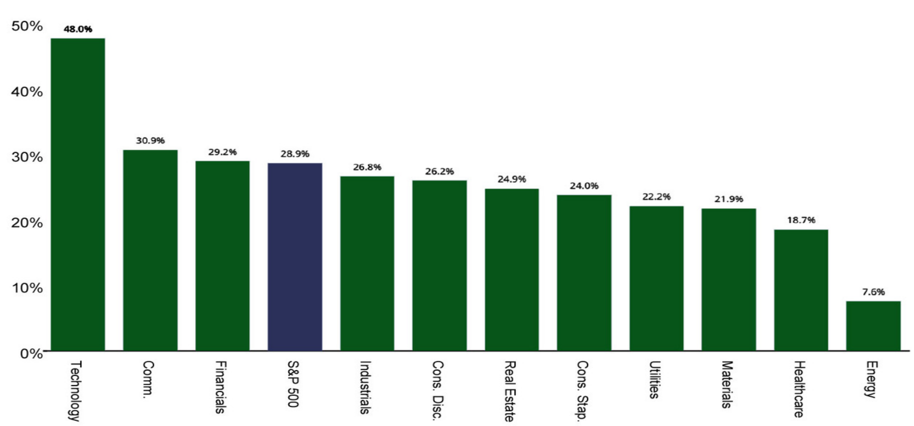
The dollar spent most of 2019 climbing, hurting U.S. multi-nationals, but much of that impact was softened in the fourth quarter. On the year, the dollar still advanced against the Euro but was relatively flat against the Yen. It advanced against the Yuan, but had mixed results against most emerging currencies.

Markets began 2019 with a massive rally in January, responding to Fed Chair, Jay Powell, saying the central bank would be "patient" with interest rate policy, a stark reversal from his rhetoric of just one month earlier. Markets screamed higher and the rally continued throughout the first quarter as earnings results easily surpassed their negative expectations. In April the markets laughed off the Mueller report and took confidence in seemingly positive trade talks with China, as the S&P 500 advanced +19% in just the first four months of the year!

The month of May saw the most significant decline of the year, as not only did China trade talks stall, but at the very end of the month President Trump tweeted his willingness to launch a dramatic trade war with Mexico (that threat lasted less than a week). Markets declined 6.5% on the month, but by June had made all of that up and then some. Markets moved higher in July, but then in August the second (and final) real bout of volatility on the year surfaced, this time as tensions with China hit their peak. Threats of a currency war were thrown around, and ultimately both sides were forced to better evaluate what their real leverage points were (and weren't). Talks moved in September to the idea of a "phase one" trade deal/cease-fire, and markets rebounded yet again.

Around this time, the Fed converted from a "we won't *tighten* further in 2019" posture to a "we will actually

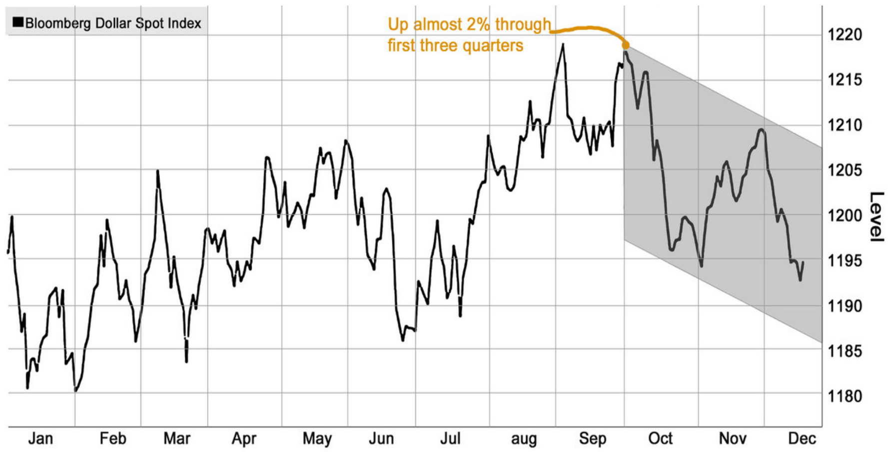
S&P 500 Sectors



SOURCE: *Standard & Poor's, Clearnomics, December 31, 2019, p.73.*

After Climbing for Most of 2019, the Dollar has Given Back All Gains in the Fourth Quarter

SOURCE: *Bloomberg*



accommodate further" posture. The final months of the year saw three different quarter-point rate cuts, enabling a further re-rating of risk assets and helping to un-invert the yield curve that had mildly inverted in August/September.

The final couple months of the year saw risk assets continue their 2019 rally, now led by a partner at the central bank, and supplemented by the news in December that a U.S.-China phase one trade deal had, indeed, been reached.

In all, the market set 35 new all-time highs in the S&P 500 last year, 22 new all-time highs in the Dow, and 31 new highs in the Nasdaq. No major asset class posted a negative return for the year.

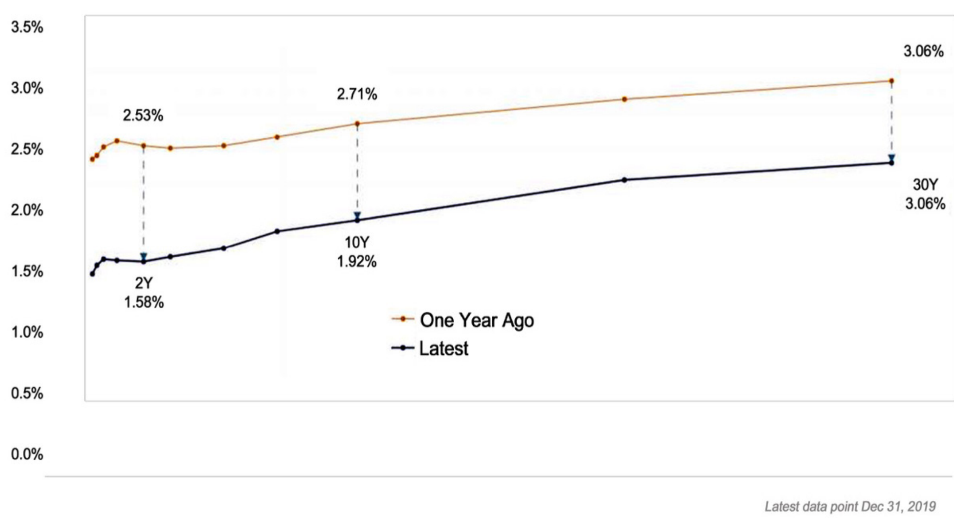
We would argue that the real surprise of 2019 for investors was in Fixed Income, despite the spectacular showing for stocks. Both because of the total return for bonds relative to expectations and because of the causal relationship between declining interest rates and the year the stock market had, Fixed Income had a year for the ages in 2019. Treasuries enjoyed a total return of +7% and investment grade corporate bonds advanced a stunning +14.7%. High Yield advanced +14%, and Municipal Bonds advanced nearly +8% (the income component in municipals being free of tax).

Bond returns did not favor credit over duration or vice versa, but rather rewarded both. The more credit and the more duration, the better—the opposite view (on both fronts) of most bond investors had a year ago. ■

Treasury Yield Curb

The Shape of the U.S. Treasury Curve Last Year Versus Today

SOURCE: *Federal Reserve,*
© 2019. Clearmonics, Inc.



Story #1: The Fed

There has not been a two-year stint in economic history where the Fed had such a profound impact on markets, with one year being so far to one end of the spectrum, and the next year being so far to the other end.

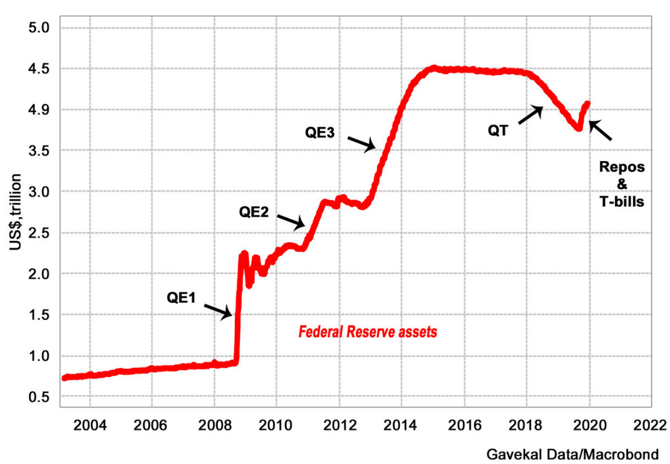
As 2018 came to a close, the Federal Reserve not only had raised rates four times throughout the year, but they continued to provide hawkish jawboning to markets, insisting that their bias was for additional tightening, and insisting that they believed the Fed Funds rate was far away from "normalization." The Q4 sell-off in 2018 came on the back of two add-on rate hikes, and an infamous Jerome Powell speech leaving open the idea that the Fed was nowhere near done in their pursuit of "normalized" monetary policy.

Alas, while their efforts were well-intentioned in our view, the challenges of reversing aggressive levels of monetary stimulus did not disappear, and Q4 of 2018 became that reinforcement that were would be no free lunch out of the post-crisis efforts of previous Fed regimes. Ironically, it was Chairman Powell himself, then a regular member of the committee, who in 2013 pled the case that additional quantitative easing and zero percent interest rates would simply make future exit processes all the more complicated. He was rebuffed then, and his own words were proven right years later, the chairman gavel now firmly in his own hand.

Four rate hikes in 2018 gave way to three rate cuts in 2019, something I am reasonably confident no credible expert was forecasting one year ago. Not only did the Fed reverse course on the direction of short-term interest rates, but they reversed the direction of their own balance sheet as well. Initially, the change was simply a cessation of prior actions to reduce their balance sheet. By the end of the year, the balance sheet was actually growing again, with excess reserves deemed inadequate in the banking system and even greater liquidity being made available to the credit markets.

The Fed claims the recent increase in their balance sheet is not a matter of "QE4" (i.e. a stimulative policy decision to add to the balance sheet for the purpose of priming credit markets and reducing long term interest rates), but rather an incidental necessity as they address abnormalities in the repo market (short term funding that became distorted in September for a variety of debated reasons). They are scheduled to continue buying assets through Q2 of 2020, though details are uncertain. The initial purchases have averaged $60 billion per month (primarily T-bills at the short end of the curve). Should that level be maintained throughout the first half of 2020, the entirety of 2018's quantitative tightening will have been unwound! Regardless of the mechanics and motivations, the net result is that the Fed has reduced short term borrowing costs, added to excess reserves in the banking system, declared a bias towards continuing to do so, and laid out an expectation that they are content to stay in this policy position for the foreseeable future.

Don't Call it QE, But the Fed's Balance Sheet is Growing Again



History says it may be a while before they increase rates. The time between a first Fed rate cut and the next hike has *averaged* 571 days over the last forty years (with a high dispersion of results within that time frame). Regardless of what the Fed does next, and when, what the central bank did to markets in 2019 was not merely get to the sideline (after serving as a headwind in 2018), but actually become a tailwind – something entirely unpredictable a year ago. Their role in un-inverting the yield curve (which, in fairness, many would say was a curve they inverted to begin with), in enhancing the valuation multiple in risk assets, and in substantially enhancing the liquidity flowing through credit markets (and dollar liquidity flowing through global markets), all served as the predominant force in boosting equities in 2019 and creating the benign environment investors enjoyed. ■

Story #2: The Trade War

We entered 2019 knowing that the trade war launched in 2018 was continuing to linger, with both the possibility of escalation on the table, and the possibility of improvement. Because the market had priced in significant tensions, but not a worst-case outcome, we entered the year with scenarios for both market improvement and market worsening around the trade war depending on which direction U.S-China relations went.

The market had a couple periods of elevated volatility in 2019 in direct response to fear that tariffs were escalating, but the markets spent the vast majority of the year in a positive state either around *hopes* that things were de-escalating, or reacting to *actual news* of de-escalation.

Though China got all of the attention in 2019, the widely debated USMCA trade deal (so-called NAFTA 2.0) was a significant development as well, primarily for what it helped avoid (i.e. disruption in trade with our North American neighbors). The bill awaits Senate passage but has sailed through the House and may very well represent the only bipartisan legislation to get done in President Trump's first term.

In Q4 of 2018 markets feared trade tensions elevating to a full-blown global trade war, and a Federal Reserve tightening monetary policy to a point of squeezing liquidity out of financial markets. We close 2019 with investors ecstatic that tariffs are de-escalating, with optimism that further trade tension relief is still to come, and with a monetary landscape that bears no resemblance to what we were experiencing one year ago. ■

Our 2019 Forecasts (re-visited)

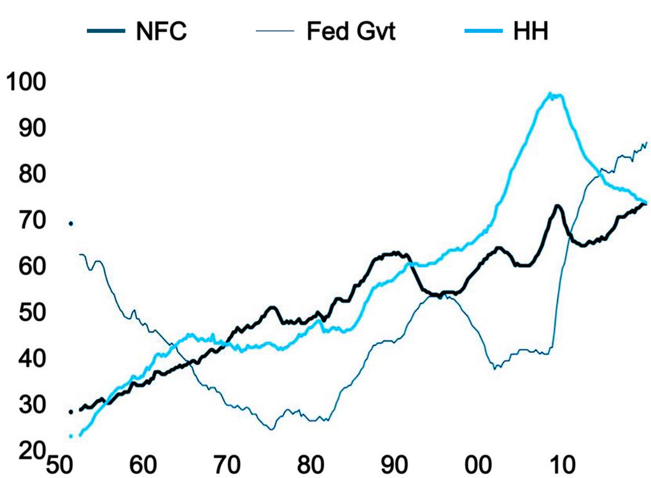
A: It's All About Corporate Credit!

I do not know how we could have picked something more accurate (or more obvious) than this. The fourth quarter of 2018 saw a significant widening in corporate credit spreads (both investment grade and high yield) as the Fed tightened to a point of liquidity suffocation and the free flow of dollar liquidity and generous credit markets came under threat. Markets declined under such conditions, and the Fed determined it had gone too far (a better way to put it would be that they had previously accommodated too much, but I digress).

The chart below shows "non-financial corporate" debt and its significant move higher in the last couple years (as a percentage of the total economy). Government debt has done nothing but increase since the financial crisis (we knew that), and Household Debt as a percentage of the economy has steadily but significantly declined (an underrated cause for optimism). But the pick-up in corporate debt levels, both in absolute terms and as a percentage of GDP, is why this subject matters so much.

Debt Outstanding by Sector

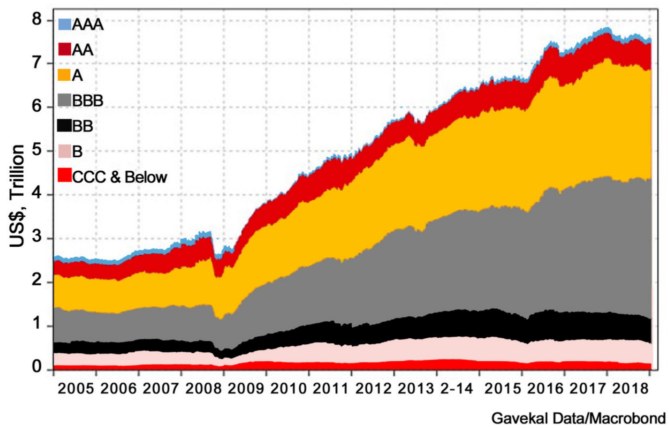
(% of GDP)



Source: Refinitiv Datastream, TS Lombard

The Size of Corporate Debt One Rung Above Junk Has Never Been Greater

Market Capitalization of U.S. Corporate Bonds by Credit Rating



Our thesis was (and is) that the economy is more levered to corporate credit than investors realize, and how corporate credit would be preserved in 2019 would have everything to do with investor outcomes for the year. Our exact words a year ago:

"2019's performance in risk assets will largely come down to whether or not the Federal Reserve effects a soft landing in the corporate economy as they navigate their monetary path. Our forecast is that they will be on the brakes for all of 2019, allowing time for credit conditions to absorb this new post-post-crisis paradigm, and that sectors most negatively impacted by the Fed tightening of 2018 will be the areas most likely to benefit from this pause in 2019."

If anything our view of a year ago now looks under-stated!

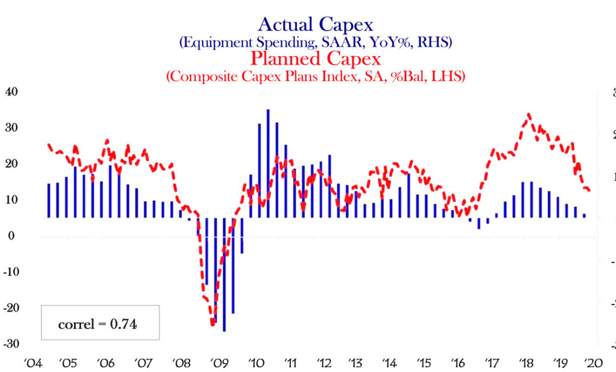
B: Capex and Economic Strength

The tax reform bill of 2017 provided the biggest boost to capital expenditures our economy had seen in a long, long time. Companies could now fully expense capex in the year of expenditure, and the repatriation of foreign profits provided further stimulative effect. Productivity growth has lagged since the financial crisis, and a sustainable, robust reversion to trendline GDP growth will require the enhanced productivity that comes from enhanced business investment. Indeed, the plan was working just fine (as the chart below shows) – until the trade war began. Suddenly, uncertainty from the trade war led to declining business confidence, which logically led to declining business investment.

Capital spending grew by 11.8% in 2018, the first year post-tax reform; it grew by just 2.4% in 2019, the first year post-trade war. While significant political, technology, and national security interests drove the administration's confrontation with China, the underlying intentions could not negate the collateral damage to U.S. manufacturing, industrial production, and business investment.

Enough confidence exists right now in the "stand-down" of a U.S.-China trade war, and enough stimulus exists in highly lubricated credit markets and cost of capital, that 2019 risk asset performance was unaffected by the decline of business investment evidenced throughout

Capital Expenditures



SOURCE: Strategas Research, Investment Strategy Viewpoint, Dec. 13, 2019, p. 6

the economy. Much of 2020 and beyond in the economy and the market will come down to this: Was 2019 a bottoming in business investment conditions, or was it a harbinger of a prolonged slowdown?

Contradictory data exists on both sides of that question. That capital expenditures would become the dominant theme in 2019 economic conversation was exactly what we forecasted; how this story will end remains "to be determined."

C: Emerging Markets

It is hard to grade our call on emerging markets from a year ago. On one hand, our emerging markets growth strategy saw a 18% total return in 2019, and over the last four years has enjoyed a 42% gain in value. But on the other hand, the 2019 return, while robust and superior to MSCI EM index returns, still sat beneath S&P 500 results.

This is a screaming opportunity to point out how irrelevant that is, and how inconsequential it is to our thesis for emerging markets investing. In fact, an investing environment in which Emerging Markets are up but the S&P 500 down is not going to be found very often. Our call on the world of Emerging Markets investing is risk-adjusted, valuation-driven, and secular. We see demographic advantages in other parts of the world that are unique, and we see growth characteristics that are simply unavailable for purchase in the U.S. at the price level they can be bought in EM. The relative return of Emerging Markets compared to the S&P 500 is not pertinent to us. As it turns out, the market environment made every asset class look good in 2019. EM participated in that in a meaningful way, and we have more to say about the 2020 outlook below.

D: Alternatives

Our recommendation for increasing alternatives as a diversifier a year ago may seem regrettable (prima facie) in a year where traditional asset classes (stocks and bonds) both performed so exceptionally well. However, the context of the theme a year ago is important (emphasis added):

"Certain paradigms do suggest a more fertile environment for alternative managers than others. A period of excessive monetary accommodation increases the likelihood that the tide will lift all boats, and makes it more difficult for a hedge fund to stand out. But we find ourselves in a period of monetary uncertainty, of legitimate headwinds vs. tailwinds, and of dramatic dislocations in capital markets. Our theme here is partially driven by our confidence and conviction in our own process around manager selection and due diligence, but it also speaks to the environment in which we find ourselves in: Beta may be a harder source of return than it has been the last ten years."

The reality is that the period of "monetary uncertainty" lasted about one week in 2019, the time period it took for Jay Powell's first public address (and waving of a white flag on the cause of monetary normalization). So did investors who heeded our advice suffer in 2019? Not at all. Some alternative strategies (private equity, income real estate) generated double-digit returns themselves, and even lower beta solutions (multi-strategy, relative arbitrage) meant to reduce portfolio volatility performed admirably, with significantly less risk along the way.

This time with even greater specificity, alternatives re-appear in the 2020 themes, but focusing on particularly illiquid approaches helping to modify investor behavior around volatility, as well as where cash flow-generative investments can be found in an alternative structure (private credit, real estate, etc.).

E: Negative housing chatter

A fascinating, and entirely constructive, development took place around this theme in 2019: A different outcome was to be found in different parts of the country. Real estate is much healthier when it behaves locally, not nationally. The regionalization of residential real estate was illustrated well in two client dinner events I hosted in the fourth quarter of this year.

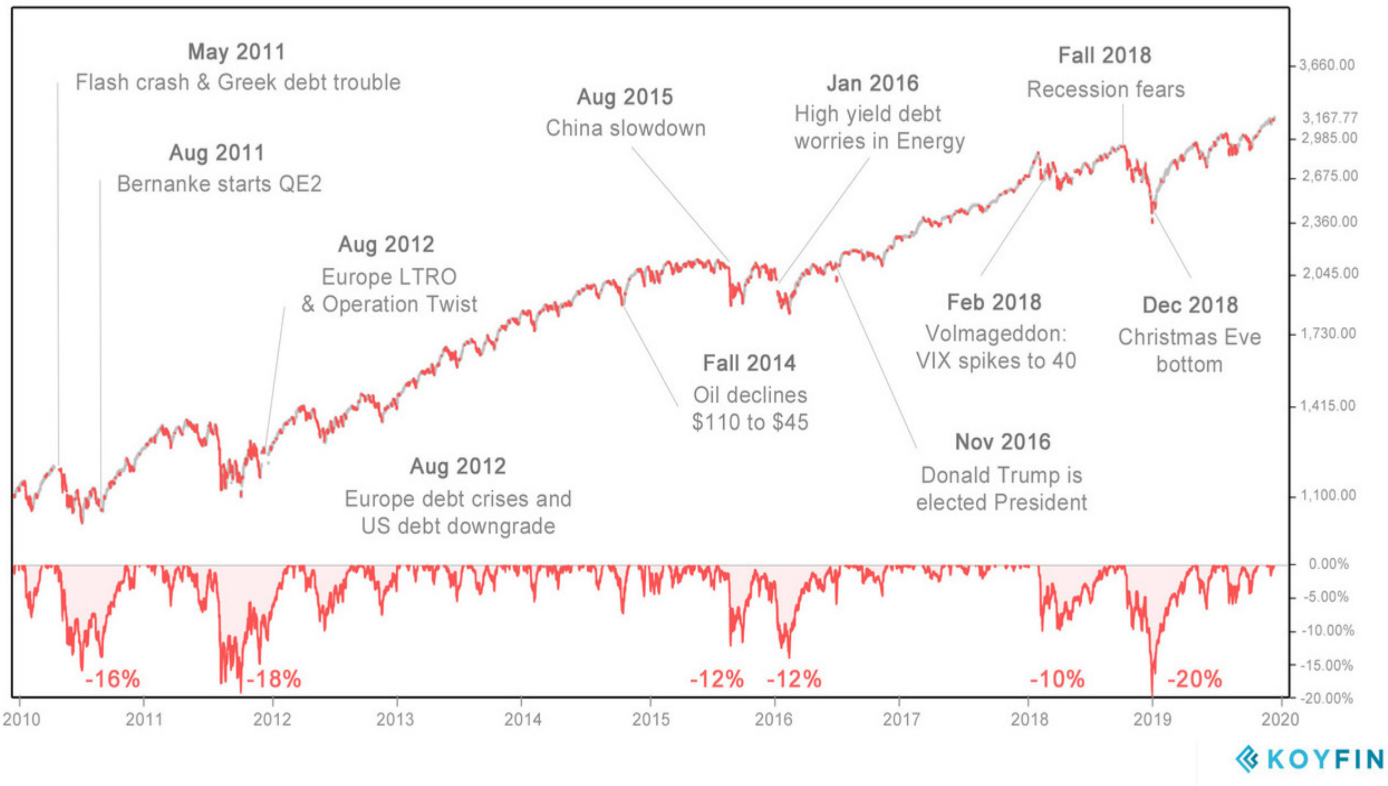
In early November I spoke at a client event in Newport Beach, CA, and an audience member asked how long I expected the positive environment for coastal real estate to continue. The insinuation in the question was (for right or for wrong) that housing prices were rising, and that it had been a strong seller's market. One week later I hosted a very similar event with very similar talking points in New York City. A nearly identical question came from an audience member during Q&A, only this time the wording was, "how long will housing go on like this?" I began to give the same answer I had given a week ago when it occurred to me – this person was actually asking *the exact opposite* question the person from a week earlier had asked! The perception in one market was that prices were firm and rising; the perception in another market on the opposite side of the country was that prices were unstable and declining. These events were just seven days apart.

The reality is that declining interest rates in 2019 probably did delay a price correction in many parts of the country, but areas that are over-supplied (and over-priced) certainly saw "longer time on market" difficulties in selling. A correction in real estate prices is needed from an affordability standpoint, but that means different things to different price tiers of product and in different geographies.

F: Patience in the Energy Story

I guess I worded this theme in such a squishy way that I can't beat myself up too badly. On one hand, the bullish energy story most certainly did not play out, despite a 27% move higher in oil prices. Certainly the idea that energy stocks would advance 8% with a 27% advance in oil prices seems counter-intuitive to many, but it ought not be so based on how many other factors we know impact the performance of the energy complex. This level of divergence is quite unusual historically, but it speaks to the substantial headwind investor sentiment represents here as well as a variety of technical considerations holding the sector back.

So yes, "patience" is still an operative word here, and our Midstream infrastructure case for 2020 will have less "squishiness" than it did in 2019.

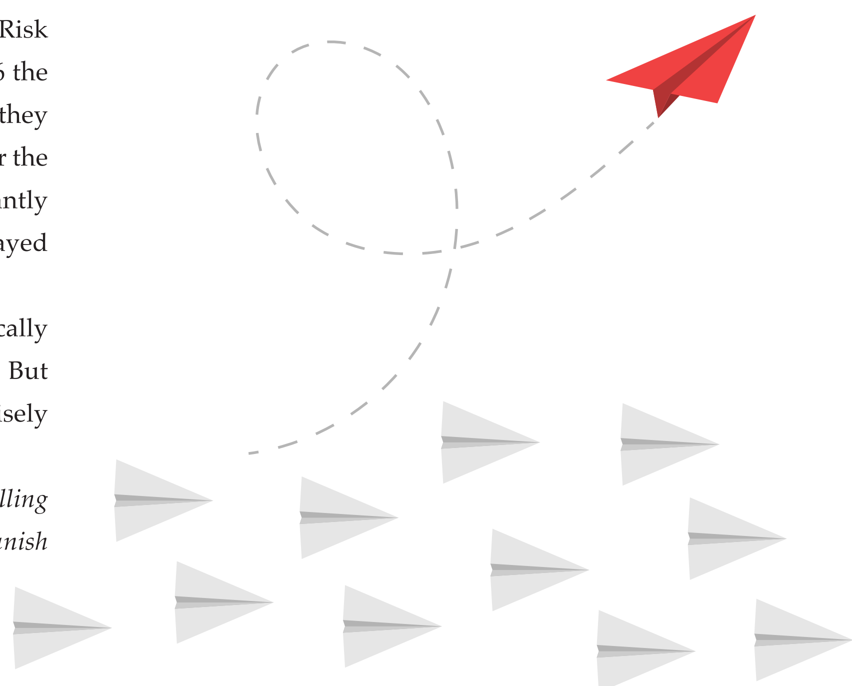


G: Déjà vu 1998 and 2016

I believe the most astute theme we proclaimed for 2019 was our comparison to conditions in 1998 and 2016. Markets declined in Q3 of 1998 around global pressures, and the Fed threw monetary stimulus at the problem. Markets declined in Q3 of 2019 around global pressures, and the Fed threw monetary stimulus at the problem. Risk assets rallied in the aftermath of both events. In 2016 the Fed telegraphed significant rate increases coming; they backed down in the face of market volatility, and after the first month of the year stock markets rallied significantly (in the U.S. and elsewhere). We know how this played out in 2019.

Not every catalyst and circumstance holds identically between these prior years and market action in 2019. But the major point we made a year ago played out precisely as we anticipated:

"The Fed's data dependence becomes a self-fulfilling prophecy towards dovishness when risk assets punish their hawkishness."



The End of a Decade

The end of 2019 not only represents the end of a year but also the end of a decade, and the beginning of the 20's – a decade that in the 1900's we called *the Roaring 20's*. The entirety of these last ten years are going to be forever known as the post-crisis decade, in which unprecedented monetary experimentation was used to create financial repression. Investors benefitted from a low cost of capital, extraordinary profit margin expansion, and a significant increase in appetite for specifically American investment opportunity.

It was not a decade without volatility. Domestically and globally, economically and politically, there was no shortage of opportunity to fear, worry, and take ill-advised action. And yet, as the chart below demonstrates, the U.S. stock market went up over 250% even as markets declined over 10% on six different occasions (and twice came right up against a 20% decline!).

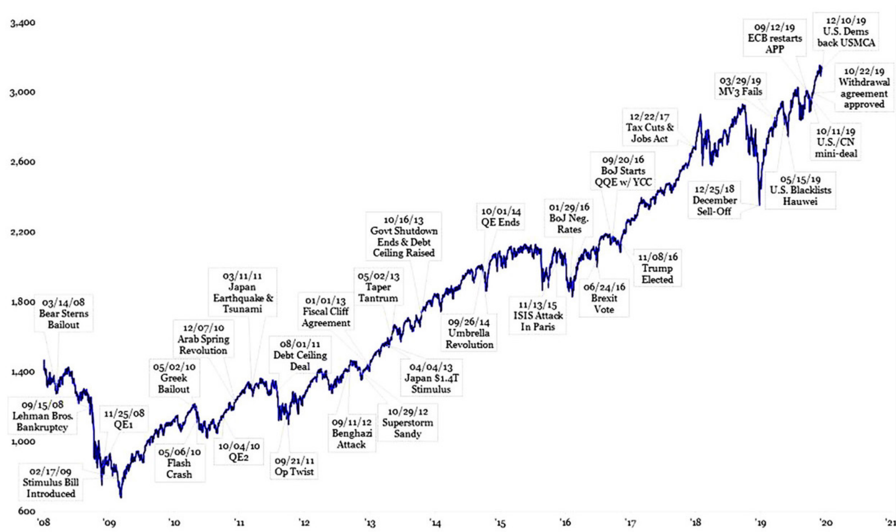
It was a hard decade to not do well investing, as all risk assets but Commodities ended in positive territory. Ironically, a decade ago the Fed was embarking on Quantitative Easing, and many were predicting runaway inflation, jumping into Gold and Commodities. Gold peaked in 2011 and registered just a 30% return for the whole decade, all of which came in the first eighteen months of the decade. Commodities did worse, as the story of the decade proved to be deflationary pressures, not inflation, and the full index blend of commodities registered a 30% negative return on the decade.

International equities did not replicate the U.S. equity good fortunes, as Europe struggled to fight off a plethora of systemic debt crises, and Japan fought off the ongoing deflationary pressures that have haunted them for a generation now.

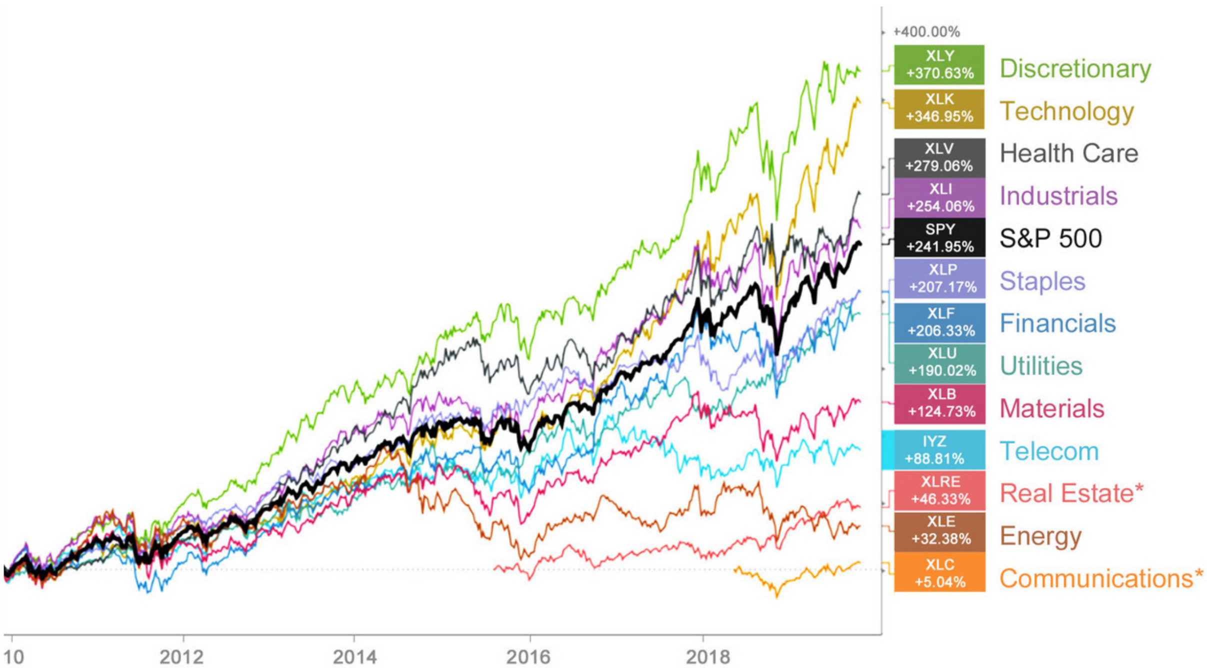
Within U.S. stocks, the high beta sectors of Consumer Discretionary and Technology unsurprisingly led the way, with Communications sitting at the bottom of the pack. Even "mid-tier" performing sectors like Utilities and Financials enjoyed ~200% returns.

There is little appetite among central bankers to turn over a new leaf going into a new decade. Ten years ago quantitative easing was considered aggressive and significant. Today, negative interest rates have taken hold in over $15 trillion of worldwide debt, putting to shame the hyper-aggressive spirit of central banks from ten years ago. Fully primed money markets have liquidity pumping and have kept prices lower than they otherwise would be, fueling a self-reinforcing deflationary cycle.

S&P 500 Timeline

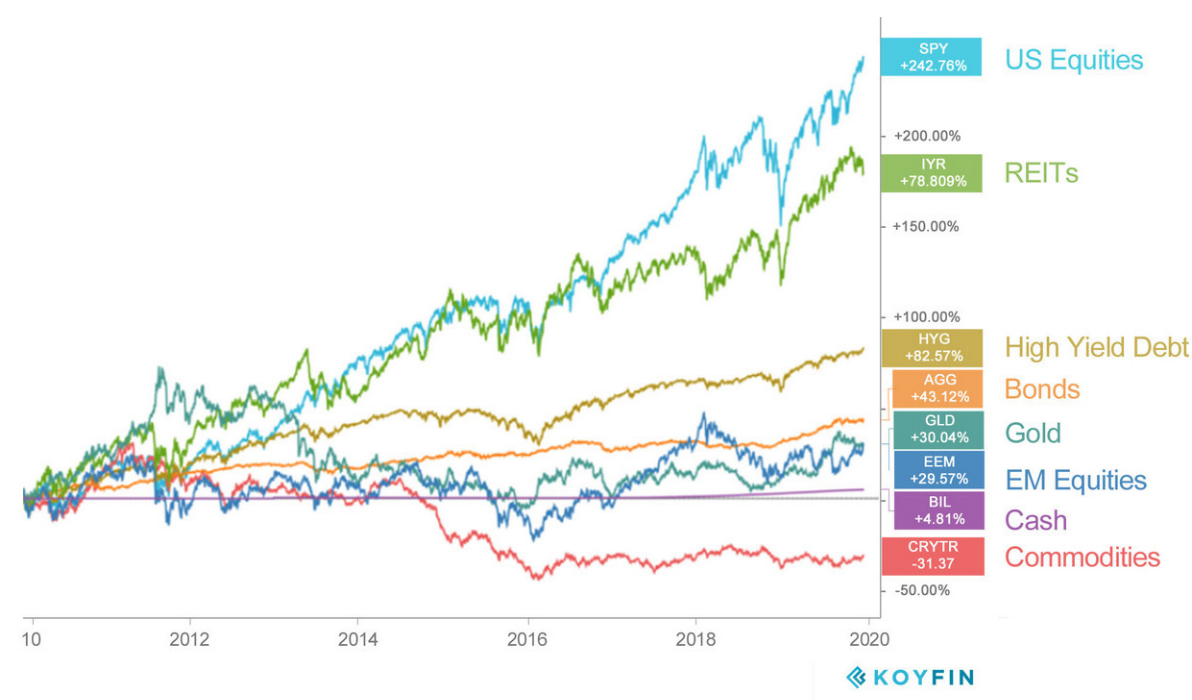


SOURCE: Strategas Research, Global Economics Report, Dec. 12, 2019, p. 1



This has not hurt asset prices, obviously, and stock and real estate prices have boomed as expected in such an environment. The question for the next decade is how interventionist central banks will be as they fight through the tension of asset prices that do not need their help, and a global debt overhang that is pleading for their interventions.

All of the economic commentary in the world about the last decade will not change the most important takeaway of all: **Time and time again investors who attempted to react to news events or market gyrations were severely punished for doing so; investors who maintained a thoughtful asset allocation strategy were rewarded. U.S. equities shined as superb corporate operators did what they do best: Generate profits, the mother's milk of investing.** ■



2020 THEMES

Theme #1: Earnings Will Matter

Theme #2: Quality Will Matter

Theme #3: Trade War Volatility May Not Be Over

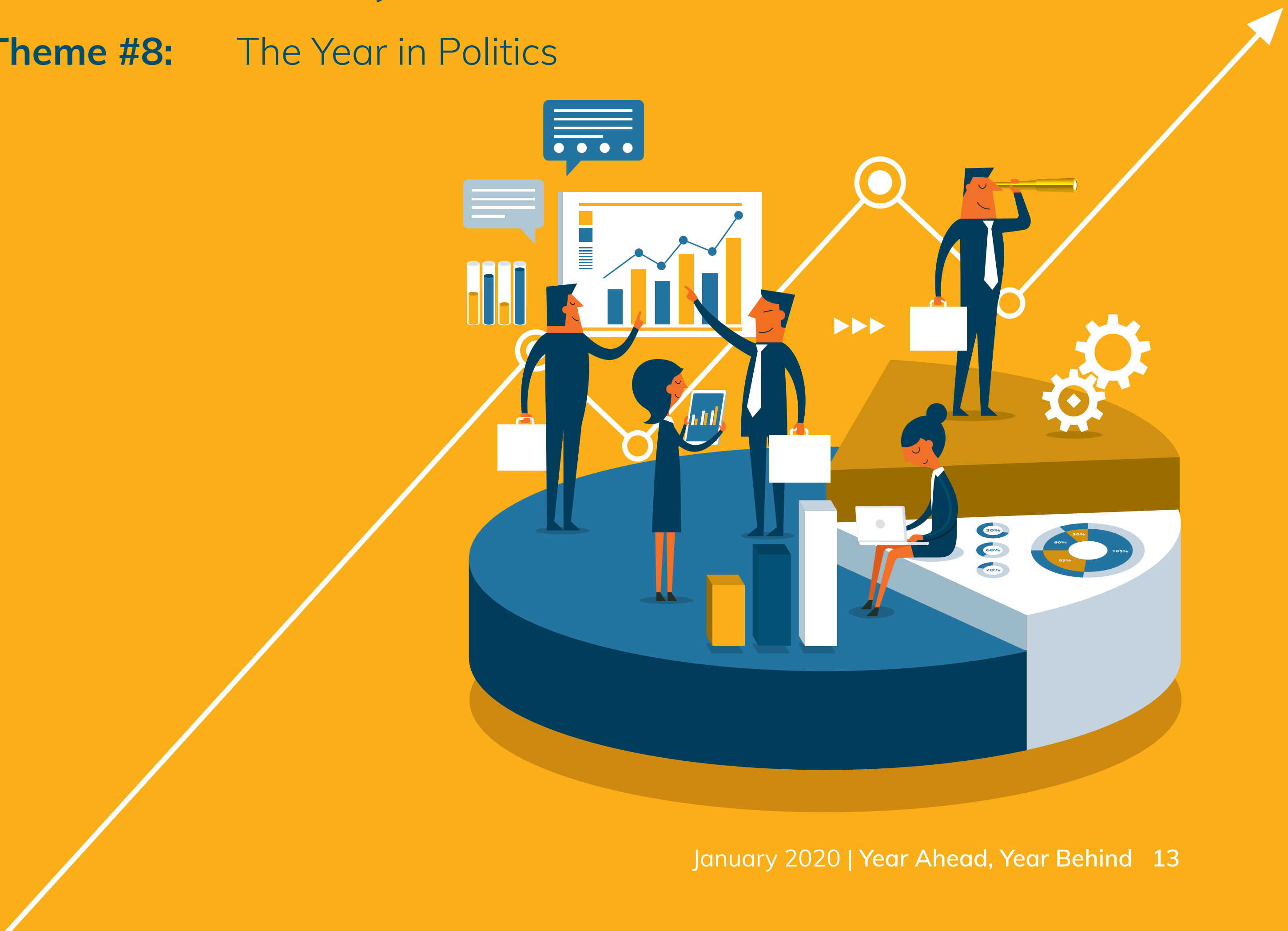
Theme #4: Emerging Markets, Again

Theme #5: Love Me Some Illiquidity

Theme #6: Midstream Energy

Theme #7: Economy Better, Markets Worse

Theme #8: The Year in Politics



Theme #1

Have Earnings, Will Prosper

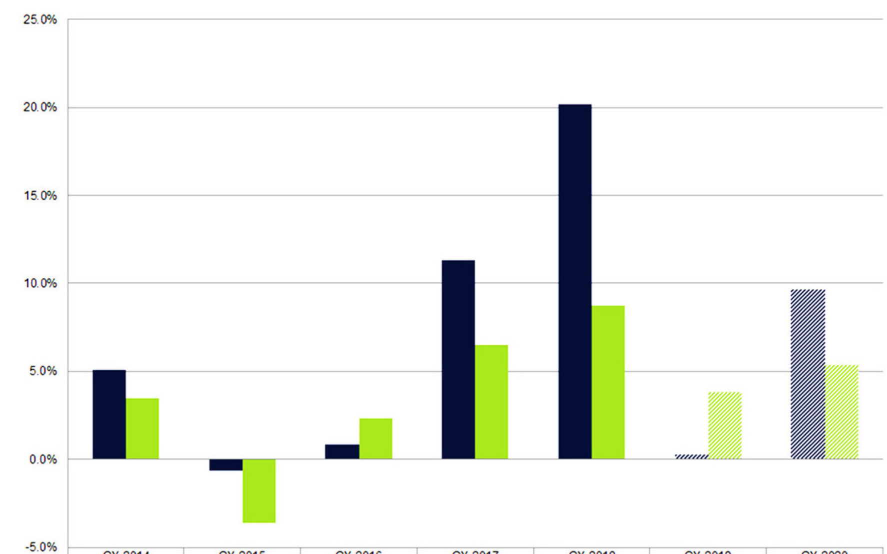
The better way to have worded the title here would be "have *earnings growth surprises*, will prosper."

Earnings growth in the S&P for 2020 is expected to be +9.6% (consensus average), a robust and above-average earnings growth rate that leaves the market vulnerable if it fails to materialize. Full-year earnings appear to be ~$163 in 2019, and current projections for 2020 are ~$179. One could (and should) argue that much of 2019's market performance was a forward-looking pricing of expected 2020 earnings growth. Indeed, the market did not go up over 28% in 2019 because of last year's ~+0.3% earnings growth. The chart below may help to unpack the "discounting nature" of markets (ever and forever, they are pricing in today what they believe about tomorrow). In 2016 earnings grew less than 1%, yet markets were up over 10%. However, in 2017 that pricing was vindicated as earnings grew over 11%. In 2018 earnings were up a stunning 20%, yet markets were *down* on the year! Again (though in the opposite direction), markets were vindicated for their 2018 "discounting" as 2019 saw flattish earnings growth. The strong performance of 2019 largely points to what markets (for right or for wrong) expect in earnings in 2020.

Now, I am skipping half of what sets market prices in the present tense in this analysis, and that needs to be addressed. Yes, markets are pricing in today what they believe about earnings in the future. But markets also do that with what is a fluctuating "multiple" – the price-to-earnings ratio applied to that [fallible] expectation of earnings! The multiple is a sort of a price discovery "catch-all" that factors in interest rates, global conditions, expectations about macroeconomics and geopolitics, and comparative investment opportunities. It is the mathematical conclusion that comes from the question: "What are we willing to pay for the future earnings we believe are going to materialize?" Throughout history markets go up and down based on (a) Actual earnings, (b) Projected earnings, and (c) The multiple applied to both A and B. It is this last one (C) that is by far the hardest to predict, and it is this last one (C) that most investors have implicitly built their investment policy around. We find multiple-forecasting to be the errand of a fool.

S&P 500 Earnings & Revenue Growth

2014–2020



	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Earnings	5.1%	-0.6%	0.9%	11.3%	20.2%	0.3%	9.6%
Sales	3.5%	-3.6%	2.3%	6.5%	8.8%	3.8%	5.4%

SOURCE: FactSet

A Market That Rhymes

SOURCE: *Wall Street Journal*, Dec, 27, 2019

In 2016 the multiple began to rise when it became evident to investors that the Fed was not going to tighten monetary policy as much as feared, and that China was not going to tip over the global economy. In 2017 the market benefitted from both earnings growth and multiple expansion (as the promise of corporate tax reform lingered and the reality of deregulation trickled through the economy). In 2018, the multiple declined despite robust earnings growth due to the trade war and Fed tightening. A good way to understand the last five or six years in markets is this:

2014: Market barely up, earnings up a bit, multiple flat
2015: Market barely up, earnings down, multiple flat
2016: Market up, earnings flat, multiple up
2017: Market up a lot, earnings up a lot, multiple up a lot
2018: Market down, earnings up a lot, multiple down
2019: Market up a lot, earnings flat, multiple up a lot

It would seem to us prudent to forecast a base case for 2020 in which markets are up modestly, with earnings up a lot, and the multiple flattish, or thereabouts.

So how can an investor create a superior result to that of the overall market if earnings growth will be the primary driver? Obviously, to focus on those areas where earnings growth is expected to be most robust, and yet is presently least priced for such! Is that easy to do? Of course not, but it is still how one can achieve the better mathematical result. We will be highly selective in 2020, which brings us to theme #2…

Theme #2

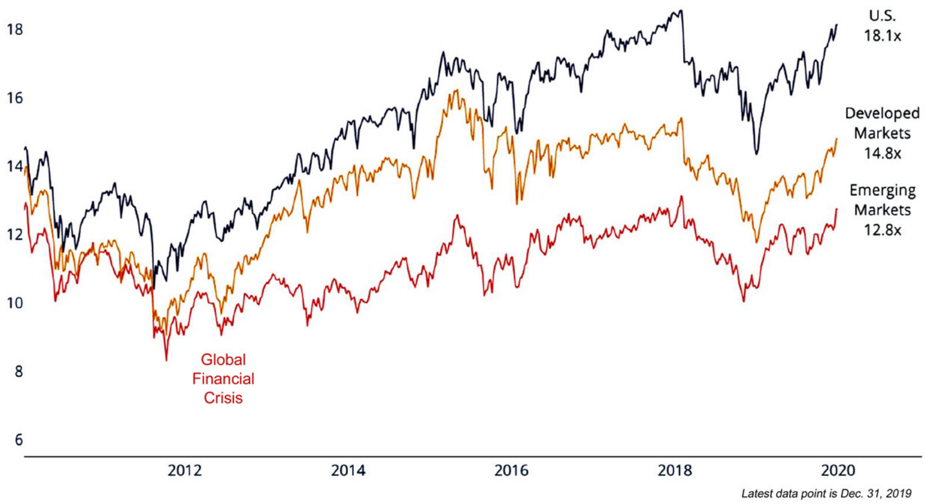
Return to Quality: Value, Growth, and 1998-2000

It was the colossal failure of a significant number of over-hyped, over-valued, over-stretched IPO stories in 2019 that has given me the greatest confidence that 2019 would not be a 1999, meaning 2020 would not be a 2000. Whereas the tech bubble burst of 2000 was immediately followed by a real estate bubble burst a few years later, investors have now [mostly] rejected the silly valuations of so-called "unicorn" companies, and in one high-profile combustion simply refused to participate in bringing a well-known office landlord to market.

Human nature did not entirely improve, and there still exists an insatiable appetite for "easy money" from a gullible investing public. But investors are at least requiring some form of minimal criteria before they massively overpay for a stock these days. The so-called FANG

Global Equity Valuations

Forward P/E Ratios for the S&P 500, MSCI EAFE and MSCI EM



SOURCE: Standard & Poor's, MSCI, Clearnomics, Dec. 31, 2019

stocks may command insane market multiples, but they are hyper-successful, established, and profitable companies, even if their valuations are too rich for us.

We believe that the long, overdone discussion of "value" outperforming "growth" is here, even as we reject those labels as unhelpful and overly simplistic. A "value" company without earnings growth is unattractive, but a "growth" company with excessive valuation has been attractive for some time. That paradigm is changing, and in our view, represents a deep opportunity in the dividend growth names of the market, where balance sheets are more stable, cash flows more repeatable, and business models more dependable.

Rather than focus on "growth" and "value," we are focused on "quality," and believe it is the logical solution for an investor concerned about the run the market has had, yet prudently desirous of continued exposure to beneficial returns.

Theme #3

Is the trade war *really* on hold?

The phase one deal with China, scheduled to be signed in January, is an undeniable good for the dual objectives of calming global markets (they have rallied substantially around the news) and making headway for the policy goals the Trump administration had with China. The phase one deal is not comprehensive, and it is not the finish line, but it is an absolute policy victory and positive for markets.

However, as much as it pains us to say it, we do not necessarily agree with the consensus view that all trade tensions will now be sidelined for the 2020 calendar year. The logic behind such an expectation is reasonable enough – that the phase one deal has left things in a good, non-escalated place, and that the Trump administration wants things quiet and calm throughout the election year. Our problem with this view is that – it is *too logical*. The milieu of policy objectives, campaign thinking, and general personalities involved do not seem to lend themselves to that which is perfectly logical.

Some degree of "trade war flip-flopping" deserves at least some consideration as a 2020 risk, and we think it is more likely than not. This does not necessarily mean a full-blown re-ignition of trade war tensions with China, but we certainly can see scenarios whereby threats, rhetoric, and yes, tweets, escalate volatility around various trade possibilities.

But this is the higher conviction forecast we have around 2020 trade tensions: That with all the focus on China, too many are ignoring the possibility of enhanced confrontation *with Europe*. The President is unlikely to see elevated rhetoric against Europe as risky for him politically (certainly not with his base), and he has plenty of economic leverage (as few could deny the U.S. economy is on stronger footing than Europe). It is questionable how many trade terms are actually in need of renegotiation with European trading partners, but the fact of the matter is that this risk seems to be totally ignored by investors right now, and we believe that is a glaring omission that ought not be made.

Theme #4
Emerging Markets

As addressed earlier in this paper, emerging markets were a key theme in 2019 as well. The reason for emerging markets as a relatively attractive growth investment space (in both 2019 and now 2020) is multi-faceted. Growth valuations in the United States have gotten stretched, whereas the same cannot be said for many high growth companies in emerging countries. We believe in the long-term, demographic story of free enterprise coming to billions of people around the globe. The current environment offers the following tactical reasons to believe in the relative opportunity of emerging markets:

A. The valuation story is important. The emerging markets offers significant discounts in valuation to other global market indices.
B. And yet connected to the prior point, the economic growth in emerging economies is stronger than developed markets.
C. Earnings revisions have been improving, with more and more companies revising expectations to the upside.
D. Hope springs eternal that trade is set to rebound, that a slowdown in global manufacturing has reached a bottom, and that global headwinds are dissipating.
E. Finally, the U.S. dollar's stubborn ascendancy seems due to reverse, and the threats to dollar liquidity which have impeded emerging economies are substantially reduced in the new monetary paradigm we find ourselves.

What we are not advocating when we speak of Emerging Markets in 2020 is a "go buy China indiscriminately" investment policy. Not only is our approach to emerging markets eternally "bottom-up" (company-driven, not country-driven), but we believe too many investors fail to appreciate the headwinds a "China is due" approach faces. First of all, the persistent, though diminished, risks around the trade war have to be considered. But secondly, China has little appetite (and perhaps even less ability) to throw more credit into their economy! China has been reliant on continually expanding credit for years. That form of stimulus octane is simply not going to be

a key catalyst in 2020, in our view. Investors need to be more discriminating.

Nothing has changed in our core philosophy for embracing emerging markets. It is a long-term asset class set to capitalize on generational demographic advantages, and we believe in 2020 it presents a tactically superior opportunity for investors who can withstand the volatility.

Theme #5

Love Me Some Illiquidity

A substantial theme we like in 2020 is for illiquid alternative investments not exposed to the [visible] price volatility of conventional assets. In short, apart from the fundamentals of risk assets that may help or hurt traditional asset performance in 2020, we believe the low volatility most of 2019 enjoyed is unlikely to repeat itself, and that investor vulnerability to the sentiment of "weak hand" investors has been exposed. A logical defense to some of this volatility and the self-reinforcing nature of its mechanics is in the illiquid sphere, where high quality, fully defensible investment strategies can be found in private equity, real estate, and credit, yet without the same vulnerabilities traditional assets will have.

Let's be entirely clear about something: The age-old discussion about whether or not private equity outperforms public equity or vice versa is a reasonably silly one. Private equity cannot be "benchmarked" or "indexed," so when one looks at the return of a private equity asset class, they are looking at individual managers and strategies that possess incredibly high dispersion. Most assuredly certain very talented private equity managers outperform public market indices, and very mediocre managers do not. The discussion is really not about the embedded return characteristics of private vs. public equity, but rather whether or not there is an illiquidity premium in private equity that benefits investors.

And of course, there is – but I am not so sure investors really understand what that premium or benefit is. We should start with an obvious statement: You can't have it both ways. Illiquidity cannot be a "premium" both in the purchase *and* the returns. If the premium "boosts" the purchase price, it creates a discount to returns. If it is a discount at purchase, it is a premium to returns. So what does one mean when they speak of the illiquidity premium? Generally, it is the idea that one pays less for illiquid assets (because they can't be sold), but then when the asset becomes liquid they benefit from the "premium" that this conversion from illiquid to liquid carries. And on paper, buying something illiquid for 8x earnings and selling it liquid at 16x obviously bears this notion out.

But recent developments make quite clear that the delta in illiquid vs. liquid equity market valuations has dissipated. In fact, some now argue investors are paying up for illiquidity, a concept that strikes any rational person as quite bizarre, *until they understand this one reality of investor behavior:*

Illiquidity often enables investors to tune out their worst behavioral instincts. It feeds a self-deception about asset pricing, which in turn creates a positive feed-

back loop where investors persevere through challenging times because the pricing enables them to see it less, and therefore feel it less.

If that sounds like I am being condescending about investor thought processes, it is because I somewhat am. But that does not make it wrong, and it also is not quite as insulting as it may sound. It is a pure commentary on the reality of human nature. Investors do not crave safety as much as they crave the illusion of safety, and in achieving some illusion of safety (the silly idea that private equity does not have price volatility just because you do not see the prices) investors actually benefit materially. Material benefit (from illiquidity) costs money. And in that sense it is entirely sensible to believe that paying up for illiquidity makes sense – it creates a benefit (though different than the benefit of valuation arbitrage most often assumed) that is real and entirely investible.

A return premium will still be needed by long-term investors in 2020 and beyond, and where liquidity and current income do not need to be priorities, we believe various illiquid asset classes (private equity, direct lending, real estate, etc.) will serve as a source of returns with an ability to hide from the realities of volatility and risk. This will both (a) Help investors participating in the mental exercise, and (b) Draw investors in desirous of the same which then reinforces the self-fulfilling prophecy.

What can go wrong? Well, bad manager selection can derail everything. A lack of discipline from the professional buyers of private investments can be fatal. We see illiquid alternatives as having an important (and even elevated) role in one's portfolio in 2020 and beyond, and yet we say that with a greater appreciation for the need to get the selection right than ever before. High dispersion of returns means the asset class is irrelevant – your own manager and solution will dictate the outcome. A substantial theme at The Bahnsen Group in 2020 is in illiquid assets for long-term investors where due diligence, process, discipline, and talent must be the epicenter.

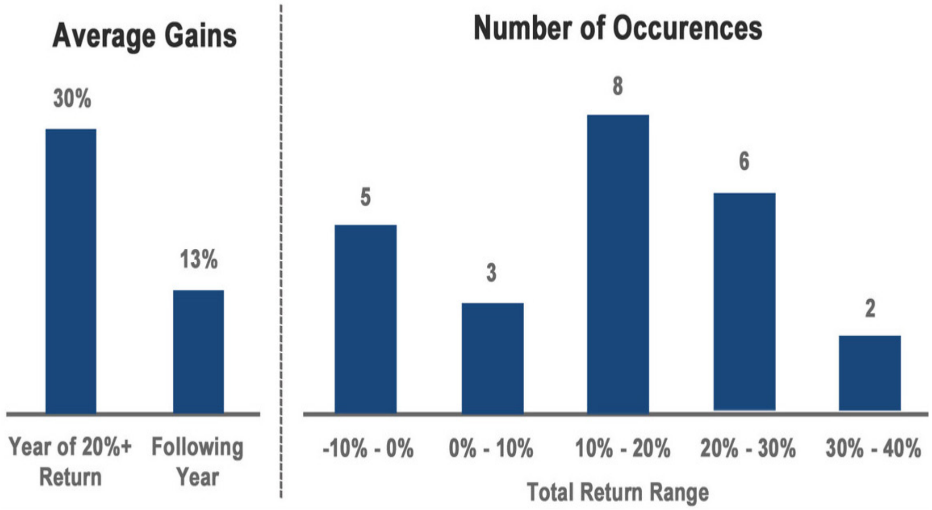
Theme #6
Midstream Energy

Few sectors have seen a "best of times, worst of times" so dramatic this last decade as the midstream energy space. Dominating in the first five years of the decade behind the initial years of the fracking revolution, the industry hit a headwind in the middle part of the decade when the future of U.S. energy production was called into question. The equity issuance that had largely funded the sector's capex disappeared, and many weak operators were left for dead. Significant re-workings of company business plans were undertaken, and stronger players in the space took advantage of the new landscape to improve and optimize their financial and operational strategy.

Earnings growth expectations in the energy sector are high for 2020. However, the drilling sector (upstream) is still expected to see earnings declines, with the bulk of the sector growth coming in refining, services, and storage/transportation (midstream).

S&P 500 Total Returns in Year's After 20%-Plus Gains

The S&P 500 Finished the Following Year Higher 19 of 24 times (79%) with an average gain of 13%



SOURCE: TS Lombard, Economics-Markets, December 2019

So why has the midstream sector struggled to catch a bid despite significant improvement in underlying fundamentals, a friendly political environment, and a positive commodity price landscape?

The market is concerned by a variety of circumstances that may very well be overwrought and misapplied, but nonetheless have been a legitimate source of stress on the sector. Too many operators have been poor allocators of capital and have struggled with prudent corporate governance. Counter-party risk was brought front and center in 2015 when the upstream sector was turned upside down, and markets have demanded better clarity and security around counter-party risk ever since. The reality is that each of these concerns have been improved upon if not fully resolved, and the concerns have been so priced in to the sector as to make better performance from here seem very logical.

But are we in a hurry for this to happen? The dividend yield investors are receiving at this price point is in excess of ~8% and the capital protections sustaining that yield are better than they have been in years. Selfishly, as ongoing buyers in the space we don't see a reason to root for the expedition of price rationalization, especially given our confidence in the sustainability of the cash flow distribution. But we do believe it is inevitable, and a number of factors cause us to believe 2020 is the year midstream will be a leader in the market, not a laggard.

Sentiment-driven declines die of exhaustion. We think the negative sentiment is on its last legs. Now, capital markets will have a lot to do with how this plays out … Private Equity has taken a much larger role in the industry, and pipeline companies cannot use indiscriminate M&A to grow their footprint any longer. We are working towards a more deliberate and intentional approach to this sector that maintains yield, is highly selective, and rewards companies not just for operational proficiency, but capital stewardship as well.

Theme #7

Economy Better, Market Worse

We are not forecasting a negative market year in 2020, and in fact are perfectly content to forecast a positive one. But no, we do not see markets besting their 2019 performance in 2020. History has actually been quite kind to markets the year after a +20%-plus year, finishing not just higher the vast majority of the time, but 13% higher (on average).

However, based on our expectations for better economic growth in 2020 than 2019 and better earnings growth in 2020 than 2019, one may expect that markets themselves might outperform 2019 in 2020, and that is not our expectation. This comes down to our consistent belief in markets as *discounting mechanisms*, respecting the fact that much of what we fundamentally see, believe, and expect, has been reflected in 2019 price action. This not only suggests more muted returns in 2020 compared to 2019, but it also suggests asymmetrical risk/reward, as much of the possible good is priced in, but the possible bad is not. Equity market expectations need to be set accordingly.

We view broad stock market returns to be more or less in line with the earnings growth the market achieves, but without much of an assist from "multiple expansion."

We ought not limit our "2019 was better than 2020 will be" theme to stocks, though! Indeed, the bond market is almost mathematically assured of that being true. The ten-year bond yield declined from 2.71% a year ago (it had been over 3% a few months before that!) to 1.92% at the end of the year, providing a huge boost in bond price valuations. Indeed, in late summer the 10-year was trading at a 1.55% yield. For bond yields to drop enough in 2020 to give the same total returns to Treasury bonds as they achieved in 2019, with a Fed not likely to reduce rates further, would take a Herculean set of global circumstances. Of course anything can happen, and bonds remain one of the best hedges against deflationary pressures in history, but we have muted expectations for bonds this year, and own them entirely for defensive purposes.

What we have not said in this section, though, is that we see substantial trouble on the horizon for the economy. We do not. While the aforementioned "trade flip-flopping" is a wild-card, we expect that GDP growth will outperform expectations, again surpassing 2% real growth, and possibly surpassing 2.5% real growth. Unemployment is likely to stay historically low. Manufacturing has contracted four months in a row, but Services remain strong.

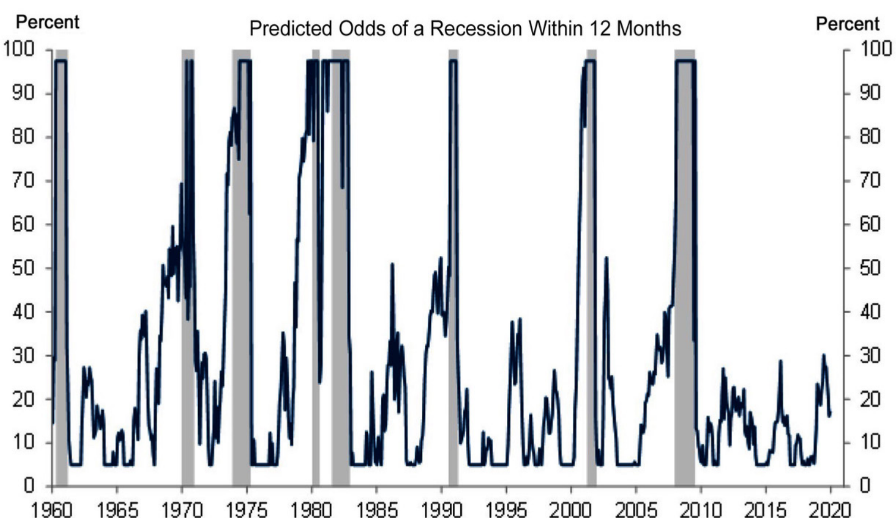
Frankly, we see upside to even our own optimistic projections if the capex renaissance previously mentioned does pick back up. The mid-2019 fears of a 2020 recession look borderline silly at this point, and we expect 2020 to not only *not* be a year of economic recession, but to be a year of economic growth and progress.

Now, optimism about 2020's economic strength is not to be confused with a permanent optimism. Whether it be 2021 or later, our 2020 call does not rule a recession in the next few years. As we have not tired of saying and will not tire of saying, business cycles have not been repealed, and this one will come to an end eventually, too. Ultimately, we believe that either monetary tightening which comes back to stave off the excesses of the present

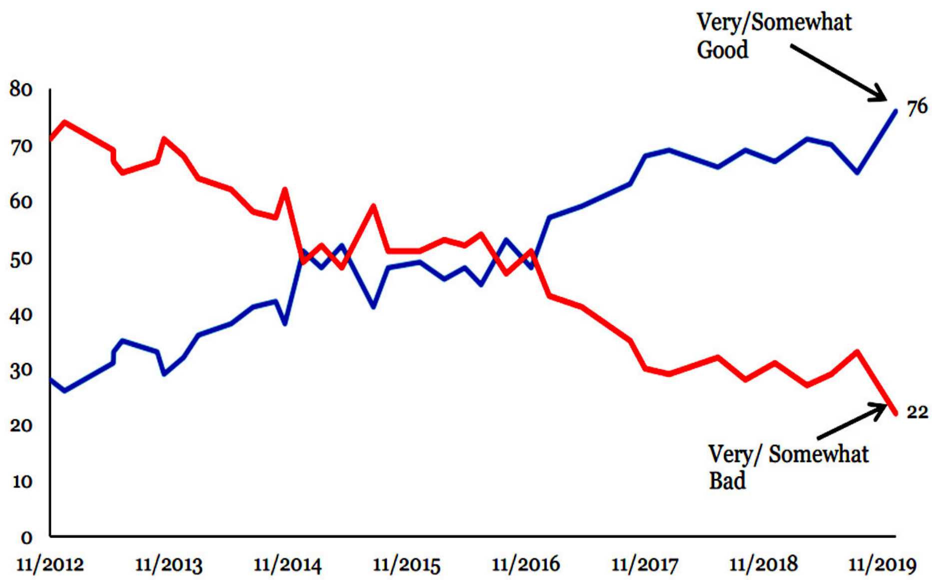
Our Model Puts Recession Risks Over the Next Year at Less Than 20% Below the Consensus Odds

SOURCE: Goldman Sachs Global Investment Research

NOTE: The plotted values are trim med at 5% and 97.5%



How Would You Rate the Economic Conditions Today?
CNN/SSRS



SOURCE: *Strategas Research, Policy Outlook, Dec. 23, 2019, p. 3*

monetary accommodations will tip is over, or the inability to generate higher economic productivity (through greater business investment) will eventually catch up to economic growth. Fools are made of people trying to predict the timing of these types of things, so we offer no forecast as to whether or not that year is 2021 or 2025 or somewhere in between. What we say for purposes of this paper, though, is that we do not believe it will be 2020.

Theme #8
The Year in Politics

History has said that the third year of a Presidential term is generally the best performing year for stocks (+16.1% on average since 1948), though the fourth year has generally been quite positive as well. In fact, in a year where a President is running for re-election (versus an open Presidential election featuring two non-incumbents) the market average has been nearly double its normal "fourth year" average. That said, these historical factoids offer no actionable intelligence and are chalk-full of outlier data that skews averages over time.

We have no predictive information to help decipher what political ramifications will mean for 2020 – we only know that 2020 is likely to be a year where investment markets are impacted by politics (namely, the election results).

We know this as we enter 2020: Voters view the economy as doing very well, and it is extremely rare for an incumbent President to be voted out of office when the economy is doing this well.

Of course, these are not normal times, and investors would be as unwise as political pundits in trying to forecast the 2020 election by conventional standards. The high political tribalization across society and unconventional style of President Trump make everything about the 2020 election reasonably unpredictable. We know that disposable income growth has traditionally been a sure-fire way of predicting re-election.

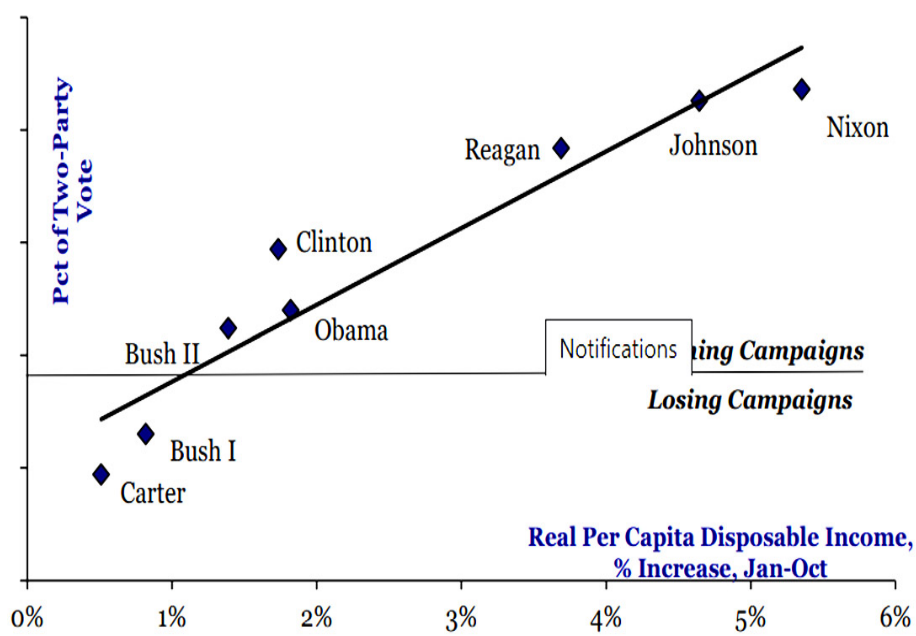
But again, "traditional" indicators may very well be obsolete. We live in interesting times. So yes, the lack of a recession in this first term of President's Trump (assuming there is none in 2020) has been a virtually perfect predictor for basically a century.

But our purpose is not to offer a prediction on what will happen in the 2020 election, but rather offer a perspective on how it will impact markets along the way, and what risks exist post-election for investors.

We expect market volatility to correlate with election volatility in the latter half of the year, and the more uncertain election outcomes are in the months before the election, the more volatile markets are likely to be. Should a clear front-runner in the Democratic Primary surface after the Iowa and New Hampshire primaries it will allow the market to begin discounting the pros and cons of that candidate in the total calculus of things. But if on the other hand, a highly divisive and contested race shows signs of lasting throughout the primary, it will make it more difficult for markets to intelligently handicap various outcomes. As things stand now, multiple candidates show signs of life in the first three states and it is impossible to rule out the possibility that no candidate has secured the needed delegates by the convention (leading to a brokered convention). We have such little historical precedent for such an outcome, I can only rely on my primal instinct that tells me that if a party needs a brokered convention to select its candidate, that candidate will likely have a huge struggle to secure the enthusiasm and unity needed to win the election. Therefore, outcomes that prolong the Democratic primary and dig deeper wedges between various constituencies in the Democratic coalition seem to be helpful to the Trump campaign.

The reason the 2020 election carries greater market relevance than normal is because of the high degree of market-impacting actions that have happened during the Trump administration via executive orders. Put differently, executive orders can happen very easily during one administration, and they can be undone very easily in another administration. While tax reform and USMCA came about via legislation, a significant amount of pro-market activity since 2016 can be undone without legislation. Furthermore, the normal political resistance towards aggressive use of executive orders has declined substantially on a bipartisan basis over the last decade. Both Presidents Obama and Trump have been heavy users of executive action to implement policy, which leaves

Real Per Capital Disposable Income Growth & President's Re-Election Share of the Two-Party Vote



SOURCE: Strategas Research, Policy Outlook, Dec. 23, 2019, p. 4

Presidential Elections and Recessions

Re-Election Year	President	Recession Two Years Before Election	Wins Re-Election
1912	William Taft - R	Recession	No
1916	Woodrow Wilson - D	Recession	Yes
1924	Calvin Coolidge - R	Recession	Yes
1932	Herbert Hoover - R	Recession	No
1936	Franklin Roosevelt - D	No Recession	Yes
1940	Franklin Roosevelt - D	No Recession	Yes
1944	Franklin Roosevelt - D	No Recession	Yes
1948	Harry Truman - D	No Recession	Yes
1956	Dwight D. Eisenhower - R	No Recession	Yes
1964	Lyndon B. Johnson - D	No Recession	Yes
1972	Richard Nixon - R	No Recession	Yes
1976	Gerald Ford - R	Recession	No
1980	Jimmy Carter - D	Recession	No
1984	Ronald Regan - R	No Recession	Yes
1992	George H. W. Bush - R	Recession	No
1996	Bill Clinton - D	No Recession	Yes
2004	George W. Bush - R	No Recession	Yes
2012	Barack Obama - D	No Recession	Yes
2020	Donald Trump - R	?	?

SOURCE: RyanDetrick LPL Financial, Fox Business

future opposition parties with a weak hand at stopping a future President from doing the same.

What are the market-impacting powers that a future President has without relying on Congress? Consider the following (and this list is by no means exhaustive):

- Financial regulations *(from executive compensation to bank capital standards to "consumer protections")* are under significant influence of the President
- Oil and gas drilling on federal land
- Approval for pipelines and terminals
- Stock buybacks
  (a President can easily influence regulation making buybacks less attractive or harder to administer)
- Renewable fuel standards and a slew of environmental regulations
- Stricter merger approvals
  (both the Department of Justice and Department of State have significant say in corporate mergers these days, both part of the executive branch of government)
- Control of the National Labor Relations Board
  (efforts to increase union participation)
- Student Loan policies
  (under the purview of the Department of Education)
- Antitrust enforcement
  (huge ramifications for Big Tech)
- Trade and tariff policy
- Net neutrality

Evaluating what the market impact would be from the most significant of policy proposals requires an understanding of the composition of the House and Senate (and it will be a very tall order for the Democrats to assert a majority rule in the Senate), but not so with the above categories (and more). Investors may believe their biggest concerns are around such large issues as "Medicare-for-All" and the "Green New Deal," but markets are not afraid of either of those extraordinarily intrusive policy proposals because markets see no path to their legislative viability, regardless of who occupies the White House. But markets will care about smaller issues with less obvious impact where the executive powers of the President can create effect.

The various policy proposals of candidates Biden, Warren, Buttigieg, and Sanders might all seem quite different from one another in those areas that require legislative action. And certainly some candidates offer a different tone and rhetoric on markets and free enterprise than other candidates do. But fundamentally, the biggest reason investors will not decipher significant differences amongst any of the candidates is that the daylight between them is minimized immensely when one only evaluates the portion of their policy portfolio that falls within executive domain.

The first several months of the year will be telling in terms of what kind of primary it is going to be for the Democrats. The second half of the year will likely create a more intensified focus on the election as a market-sensitive event. Forecasts and predictions are challenging given the unorthodoxy of the moment. Humility is in order. ■

CONCLUSION

We enter 2020 excited for what the year holds. We are cognizant of the two concerns most often uttered by investors: (1) How to get more income, and (2) How to be protected after such a positive period of performance. And we believe, perhaps self-servingly, that our obsessive investment philosophy at The Bahnsen Group is tailor-made for these two questions. We seek an inherently superior defensiveness in our portfolio characteristics, and we strive for growing portfolio income, forever and ever. Indeed, we seek that growing portfolio income *not merely for the increased cash flow itself*, but because of what that characteristic represents to the quality and durability of a holistic portfolio.

We expect there to be periods of light volatility in 2020, much like most of 2019 was, but we do believe the overall volatility of 2020 is likely to be higher this year, particularly in the back half of the year. That said, the liquidity environment in the global economy (loose and ample) and the likelihood of a muddle-through economy globally (versus outright recession) suggest that investors will be modestly rewarded for risk-taking in 2020. Greater awareness of risk is warranted, and moderated expectations for returns are a must, but we would advocate persistence and status quo with risk asset allocation to one's portfolio.

Ironically, one of the more bearish things we are watching for is a "melt-up" in stocks – a sort of euphoric "blow-off top" where things get way ahead of reality. In that sense, investors may very well like it as it happens, but will likely not enjoy what follows – which historically is a meaningful correction in response. We have not yet seen such a melt-up, and in fact have continued to be amazed at the lack of retail investor belief in this bull market. From a contrarian perspective that is a good thing, but should subdued participation give way to irrational exuberance, we may alter our posture.

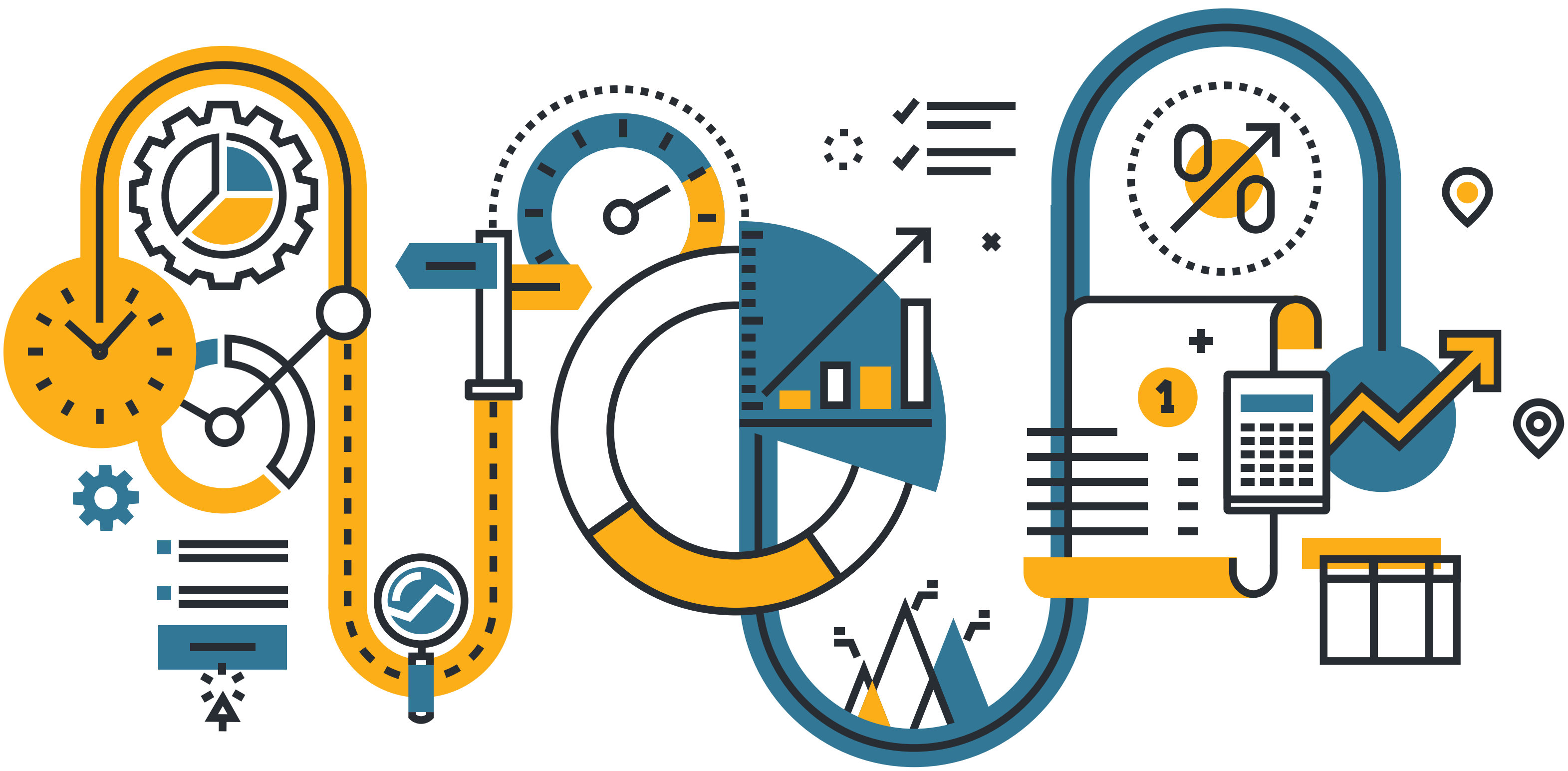
We have believed in the secular deflation (*disinflation*) story for some time and continue to believe that excessive global government debt has assured that to be the secular economic habitat for many years to come. But it must be said – nothing about a *secular deflation* thesis means that there cannot be periods of *cyclical inflation*. There can be, and there likely will be. A world with $15 trillion of debt instruments trading at negative yields cannot be viewed rationally or with historical tools. **Central bank interventions are both a response to deflationary forces, and a reinforcing cause of deflationary forces.** We continue to believe this will be the dominant economic story of the next decade (or longer).

So we enter 2020 with a sense of cautious optimism, aware of the diminished effect of trade relief and monetary stimulus that assisted risk assets in 2019, yet encouraged by the possibilities of a resurgence in business investment, and committed to the "no recession" story of 2020. Risk and uncertainty are permanent conditions for investors, and this is no less true as we enter the new year.

We believe that the fundamental principles by which we invest will serve us well in 2020 – asset allocation, bonds for defense, alternatives as non-correlated diversifiers, dividend growth as the proper criteria for stock investing, etc. And we believe our particular 2020 tactical themes (under-appreciated earnings growth, emerging markets, illiquid alternatives, and midstream energy) are worthy of the highlight we have given them.

Yet 2020 will be another year in an uncertain world, and history tells us that uncertainty is not just a permanent condition of investing, but a permanent condition of humanity. The U.S. election in 2020 presents certain uncertain possibilities, but if it weren't the election it would be something else. Our focus in 2020 is not to do what we cannot do, which is eliminate risk and uncertainty from our client's lives, but rather to find the best opportunities for investment reward within prudent levels of risk that work for each individual client. The entire process requires relentless study, monitoring, diligence, and flexibility. Our process is rooted in a solid foundation of beliefs, principles, and lessons, and is executed with care, passion, and commitment.

To that end we work, in 2020 and beyond.



THE/BAHNSEN GROUP

520 Newport Center Drive #550
Newport Beach, CA 92660
(949) 877-5010

420 Lexington Avenue
Suite 2031
New York, NY 10170
(646) 434-3127

thebahnsengroup.com